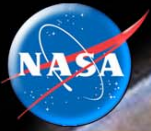


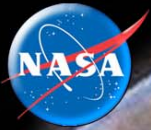
PM Challenge 2007: Implementation of Internal Controls at NASA

Edward A. Healy
February 7, 2007



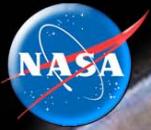
Outline

- Why Do Internal Controls?
 - What Are Internal Controls?
 - What Do Internal Controls Mean For a Program or Project Manager?
 - NASA's Implementation Plan
-
- Note: Details of plan still being finalized. Presentations to NASA Operations Management Council on Feb 15, 2007 and April 2007.



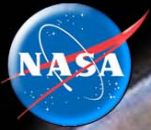
RIPPED FROM THE HEADLINES!!!! (Or Why Internal Controls?)

- **Government buys \$900 hammer!**
- **Government pays \$600 for Toilet Seat!**
- **Senior Government Official uses government aircraft for personal trips!**
- **Federal Contracting official uses government credit card to buy furniture for her home!**
- **Federal employee use government credit card to purchase jewelry!**
- **Program XX cost rises from \$8B to \$20B!**
- **Program YY is delayed by 5 years!**
- **Because of retirement of baby boomers, Agency lacks adequate work force to conduct mission!**
- **The best of all: Military communications example**



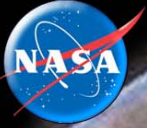
Why Internal Controls?

- Agency must comply with updated OMB Circular A-123, *Management's Responsibility for Internal Control*, Dec. 2004
 - Provide assurances of internal controls
 - Separate assurance on internal controls over financial reporting
- Assessment of internal controls must include programmatic, financial, and institutional management, and must be conducted as effectively and efficiently as possible
- Internal controls must be implemented for all programs that require Program Assessment and Rating Tool reporting!
- Congress has advocated internal controls for twenty years!



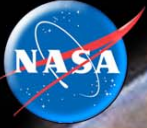
Why Internal Controls: OMB Requirements

- ❑ All Federal Agencies Must Implement Internal Control Programs
- ❑ Agency Internal Controls Programs Must Ensure:
 1. Reliability of financial reporting
 2. Applicable laws and regulations are followed
 3. **Operations and Programs are executed efficiently and effectively**
- ❑ All Agency Heads Must Sign Statement of Assurance that Agency is Complying and Identify Areas of Weakness
 - ❑ At NASA, Associate Administrators, Center Directors and other HQ Officials in Charge send Statement of Assurance to the Administrator



What are Internal Controls?

- Internal controls are management control measures used to ensure effective and efficient operations
- OMB Circular A-123: "...should occur in the normal course of business."
- Control Measures in place (Sometimes called "control gates")
- Examples:
 - Programmatic (But wait, we already do these!!)
 - Requirements Reviews
 - Design Reviews
 - Flight Readiness Reviews
 - Institutional
 - Facilities Inspection
 - Long Range Plans
 - Financial
 - Audits
 - Budget Formulation



What are Internal Controls?

- **Operations Management Council has recognized that NASA must improve internal control program.**
- **Reporting of Internal Controls not sufficient.**
- **Integration of Internal Controls needs significant improvement.**
(What the heck does this mean?)

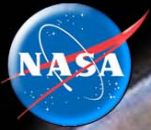
For example: Do we have the budget, facilities and workforce ready to conduct the Constellation program effectively?

Program: Constellation

Financial: Budget

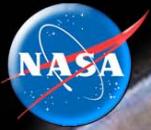
Institutional: Facilities and Workforce

Who is responsible for all of this?



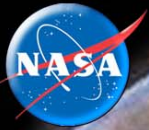
Internal Controls Framework

- **Assessable Units – Discrete Actions or Discrete Programs**
- **Control Environment – Organizational Structure and Culture**
- **Risk Assessment – What are the Risks to the Mission**
- **Risk Rating – What is the Risk Level – Low, Medium, High**
- **Control Activities – Policies, Procedures, and Reviews**

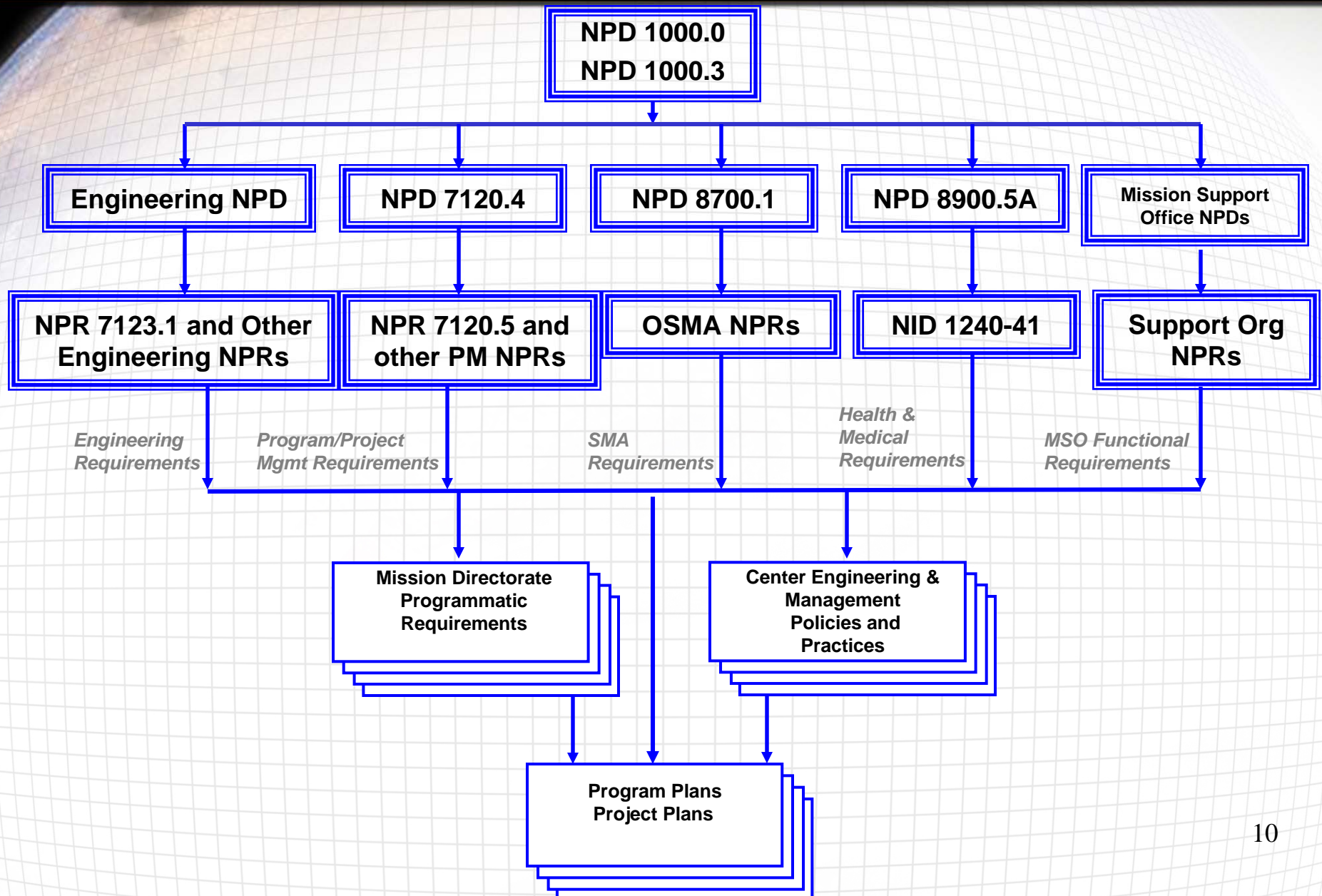


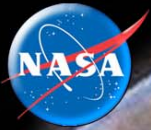
What Does This Mean For a Program or Project Manager?

- **Conduct business as outlined in Technical Documents, but work closely with your counterparts on the Institutional side to ensure that your requirements are forecast and met!**
- **Report through your project to program to Mission Directorate. Matrix work force will also have the ability to report through Center just as they do with independent technical authority.**



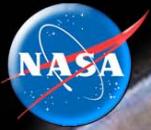
Technical Authority Document Hierarchy





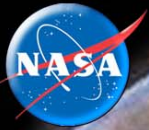
Need for Modification to Current Approach to Internal Controls

- In 2006, it became obvious that supporting documentation and evidence for the annual statement of assurance was severely lacking. Financial evidence was documented, but the programmatic and institutional components were not.
- NASA relied upon external audit bodies to identify weaknesses, instead of actively identifying, managing and correcting weaknesses internally.
- Perception existed that internal controls is strictly a financial tool

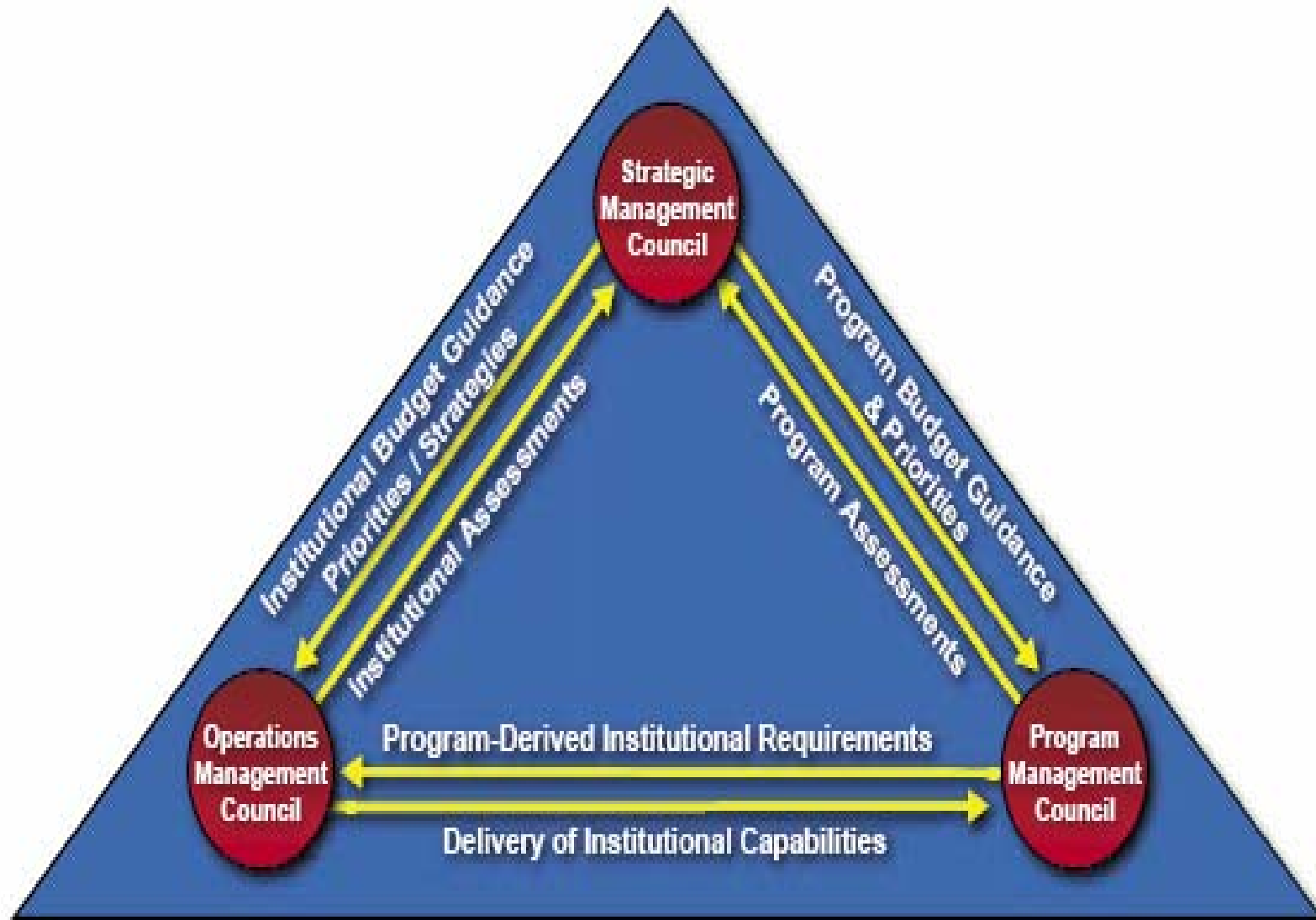


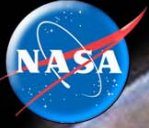
Need for Modification to Current Approach

- OMC was tasked with the responsibility of reviewing and monitoring all reported internal control deficiencies. This proved to be an arduous task, and not an efficient role for the OMC. The SAT was not functioning as reviewing body.
- An Internal Controls workshop with representation from programmatic, financial, and institutional components revealed a stovepiped approach to managing internal controls. The SAT was not effectively integrating internal controls; as a consequence, risk to NASA increased both for internal management effectiveness and external audits.



NASA Governance Structure





Current Governance Structure

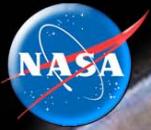
Operations Management Council (OMC)

Senior Assessment Team
Chaired by DCFO

Programmatic

Financial

Institutional



Proposed Governance Structure

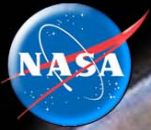
Operations Management Council (OMC)

Senior Assessment Team
Chaired by Director of the OPII

Programmatic

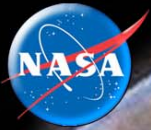
Financial

Institutional



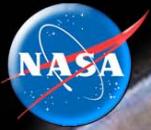
Proposed Responsibilities of the Senior Assessment Team

- Integrates and coordinates internal controls and policies across programmatic, financial, and institutional management for improved efficiency and effectiveness of Agency internal management controls
- Provides oversight of the design and implementation of an effective and comprehensive Agency-wide internal control program
- Leads Agency prioritization of internal control requirements for the current year and develops plans for prioritization in the out-years consistent with Agency vision and mission
- Monitors and assesses Agency material weaknesses for the OMC; recommends action as appropriate



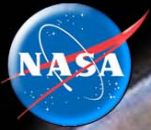
Proposed Responsibilities of the Senior Assessment Team

- Reports material weaknesses to OMC for further action
- Tracks progress of Agency-wide corrective action resolution
- Supports OMC and the establishment of an integrated set of metrics to measure the Agency's progress towards its goals
- Compiles supporting documentation for the Administrator's Statement of Assurance from HQ Offices and Centers
- Promotes continuous internal controls evaluation and monitors the progress of assessments throughout the Agency



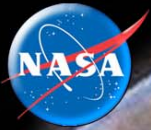
Justification for Change to Chair of the SAT

- The OP11, as SAT Chair, is best positioned to coordinate the development of an Integrated Internal Control Plan and determine appropriate assessable units for review and analysis
- The OP11 as SAT Chair, is best positioned to identify internal control deficiencies within the Agency management systems and recommend appropriate action
- The OP11, as SAT Chair, is best positioned to render decisions in the overall best interests of the Agency, with no dominant programmatic, institutional or financial filter



Justification for Change to Chair of the SAT

- Under the new governance structure, the Office of Program and Institutional Integration (OPII) is the manager of Agency-level integration of programmatic and institutional functions and activities, and is best positioned to recognize internal management control deficiencies across programmatic, institutional, and financial entities
- The SAT will enhance the OPII role as focal point for programmatic requirements and as the integrator of functional policy requirements by providing current information on the state of internal management controls to meet those requirements across the Agency



Senior Assessment Team Membership

WORKING LIST

Director, Office of Programmatic and Institutional Integration (Chair)

Assistant Associate Administrator

Associate Administrator for Institutions and Management

Deputy Chief Financial Officer

Mission Directorate Deputy Associate Administrators

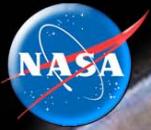
Deputy Chief Engineer

Deputy Director Safety and Mission Assurance

Deputy Director, PA&E

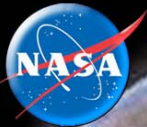
2 Deputy Center Directors (Rotating)

Others as needed

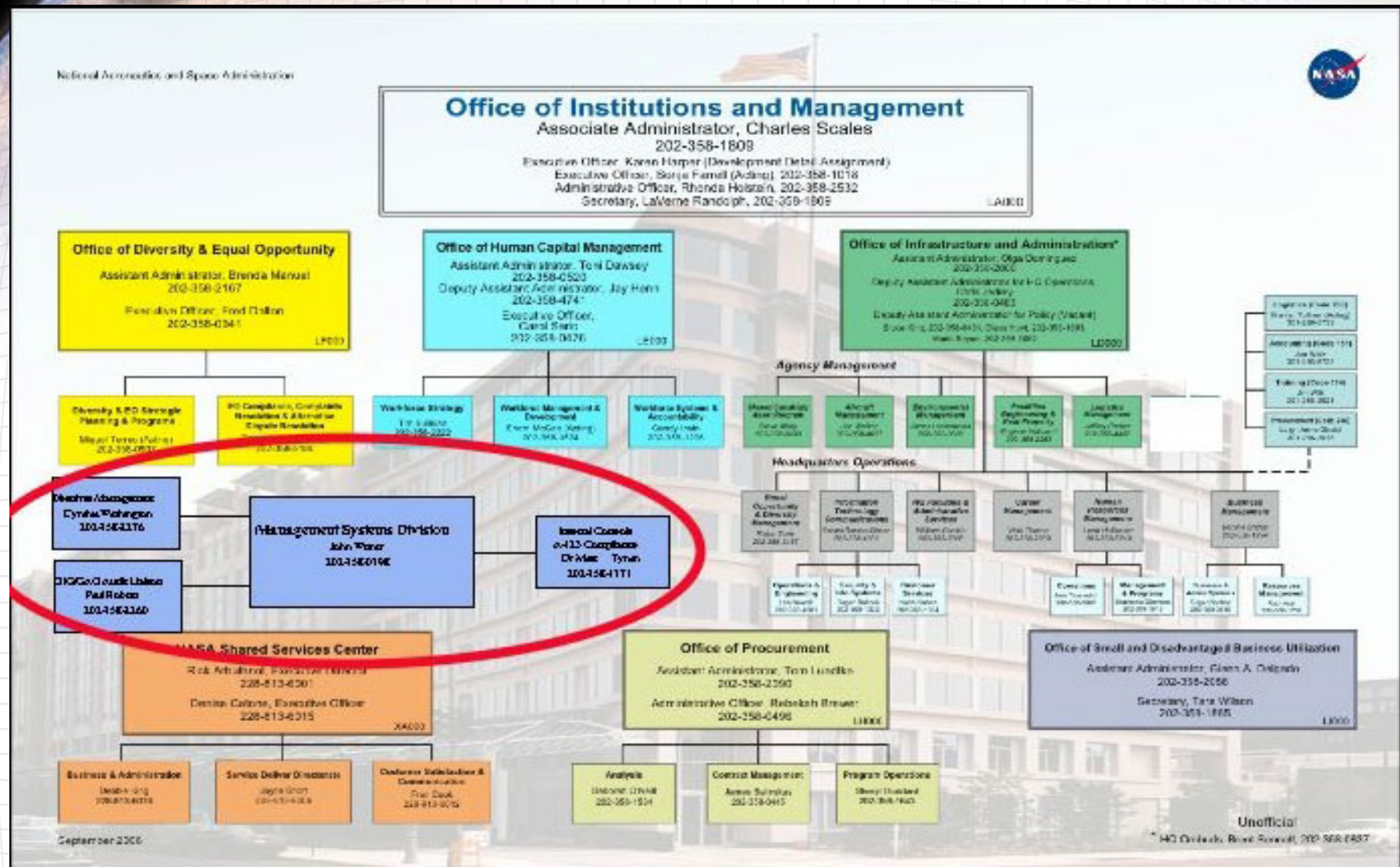


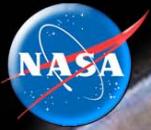
Justification for New Office Reporting to AA, I&M

- The new Office will improve compliance with Federal objectives and requirements for internal management controls to assure the accountability and effectiveness of Agency programs and operations. New Office will also be responsible for managing institutional risk.
- The new Office will provide focused leadership to assess and integrate a comprehensive internal management control program consistent with the current governance structure of the Agency
- The new Office will provide a framework for successful execution of the Agency's mission through effective governance and decision-making, efficient resource prioritization and alignment, and monitoring and assessment of key internal management controls



Proposed Execution of Internal Controls Functions





Plan of Action for Implementation

- Decisions by the Deputy Administrator to:
 - Modify responsibility and chairmanship of the Senior Assessment Team
 - Move current management systems function from I&A to a new office for Internal Management Controls, which reports directly to the AA for Institutions and Management
- Update Charter with approved roles and responsibilities
- Establish an organizational implementation plan to be presented to Deputy Administrator for approval (Feb 07)
- Develop Integrated Internal Controls Plan
- Brief Plan to OMC (15 Feb 07 and April 07)
- Update Internal Control policy documents
- Implement Plan in April 07

DETAILS STILL BEING FINALIZED